

# OPEB vs Defined Benefit Pension Sonoma County Experience

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# Defined Benefit Retirement vs OPEB

- 1937 Act Defined Benefit System - Sonoma
  - \$1.6 billion in assets
  - 94% funded (actuarial value of assets) 98% (market value)
  - 3% at 60 enhanced benefits funded by employees (unfunded liability, employee contribution, and employer contribution)
  - Strong Relationship between Retirement and County
  - Support CSAC's Pension Principles



# Defined Benefit Retirement vs OPEB (contd.)

- Other Post Employment Benefits – OPEB
  - Pay-as-you-go funding annually - \$20 million
  - Pay-as-you-go expense grew from 2.85% to 7.06% of payroll in 5 years – 38% in '06/'07
  - No prefunded assets
  - Unfunded Actuarial Liability is \$381 million
  - Annual Required Contribution (ARC) \$37 million – 13.9% of payroll

# Current "Pay-As-You-Go"

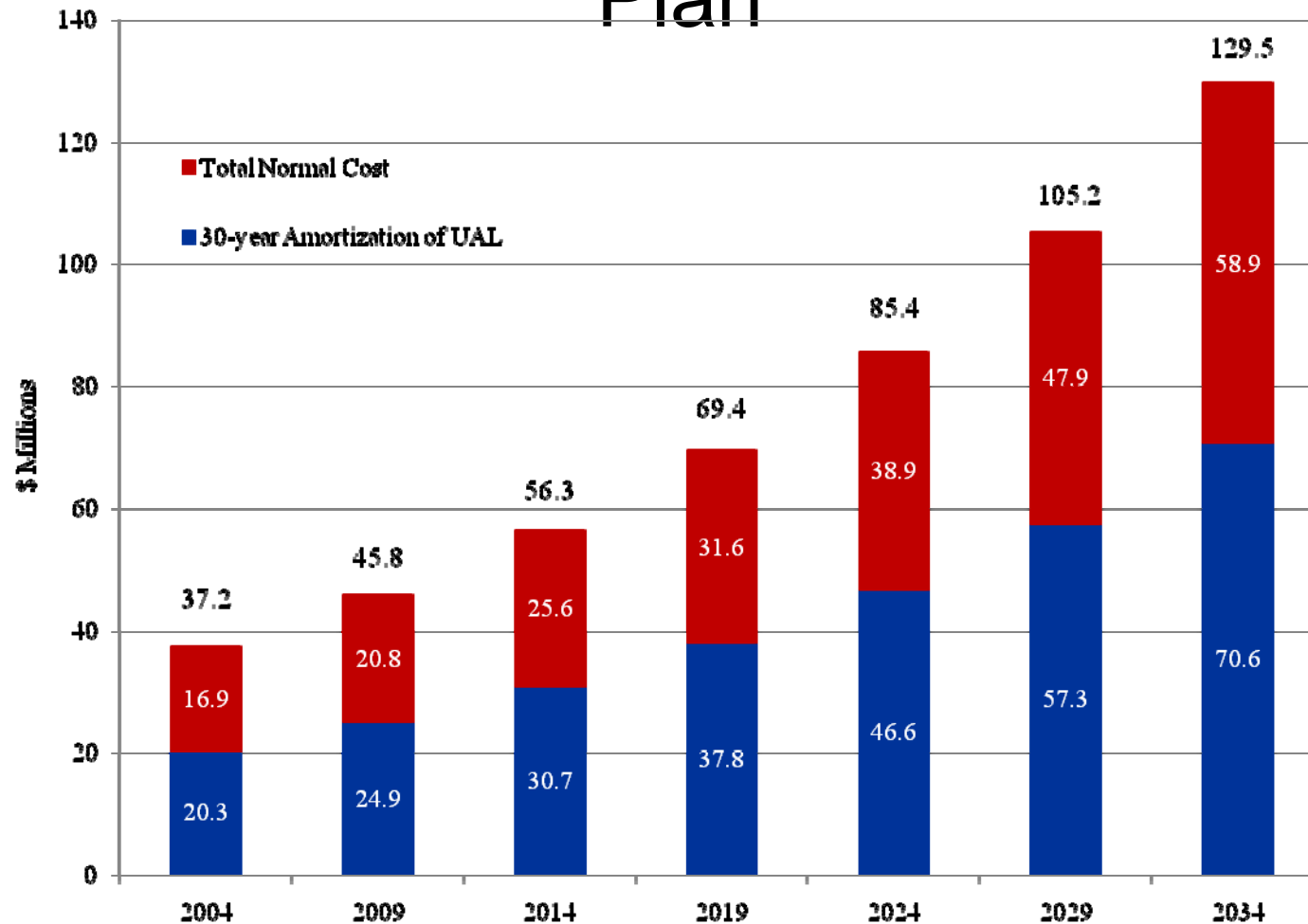
| Fiscal Year | Retiree Health Benefits Costs | % of Payroll | Percentage Increase |
|-------------|-------------------------------|--------------|---------------------|
| 2006-07     | \$20M (budget)                | 7.60%        | 38%                 |
| 2005-06     | \$15.7M                       | 5.92%        | 29%                 |
| 2004-05     | \$12.4M                       | 4.53%        | 26%                 |
| 2003-04     | \$ 9.6M                       | 4.00%        | 20%                 |
| 2002-03     | \$ 8.4M                       | 3.40%        | 17%                 |
| 2001-02     | \$ 6.7M                       | 2.85%        |                     |



# OPEB Available Options

- Continue “Pay-as-you-go” funding
- Pay the Annual Required Contribution (ARC)
  - Cut programs and services to fund the ARC
- Reduce the ARC by:
  - Modify/Reduce retiree health benefits and/or
  - OPEB bonds to refinance the liability, reducing annual ARC

# Annual Required Contribution: Current Plan



# Sonoma County – “Reduce the ARC”

- Sept. '06: Began discussion with Employee Representatives
  - Education
  - Recognition of the problem and size
  - Offer suggestions to reduce OPEB costs
- April '07: Board of Supervisors reduced the employer contribution for health care benefits for retirees and active management and confidential employees



# OPEB Bonds Option

- Sonoma County is researching this option
- Could reduce \$37 million ARC by as much as 15% or \$6 million annually
- May be necessary to motivate Employee Groups to modify future health benefits for retirees and actives
- Positive experience with Pension Obligation Bonds in 1993 and 2003



# OPEB Bonds Issues

- Soft versus hard benefit obligation
  - OPEB bonds debt service - hard
  - Future negotiated health benefit for actives and retirees - soft
  - Need to validate the liability to refinance the OPEB UAAL
- Prepayment of OPEB bonds
- Federal reimbursement
- Investment risk and opportunities

# Commission's Assistance

- OPEB
  - Assist in obtaining approval from Federal Office of Management and Budget for reimbursement of OPEB Bonds debt service. Extend the 1993 POB authorization to OPEB bonds.
  - Issues related to hard vs soft debt – vested benefits
  - Investments – Support expanded options for prudent, balanced investments

# Commission's Assistance

- Pension Systems
  - Support CSAC's Principles for Pensions
  - Clearly separate the issues of OPEB from our well-managed Pension Systems





Thank you!!